

CHAPTER 33 CONTRACT COST PRINCIPLES

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3300 GENERAL PROVISIONS

- 3300.1 The cost principles and procedures set forth in this chapter shall be used when cost analysis is performed in connection with any contract or solicitation under the District of Columbia Procurement Practices Act of 1985, D.C. Law 6-85 (the "Act"), in accordance with the Act or this title.
- 3300.2 The cost principles and procedures set forth in this chapter shall be used by the contracting officer to negotiate or to determine reimbursable costs or the allowability of claims for reimbursement of costs in accordance with the clause, approved by the Director, contained in all cost-reimbursement contracts in accordance with §310(b) of the Act.
- 3300.3 In accordance with §601 of the Act, the cost principles and procedures set forth in this chapter shall be used in the following situations:
- (a) The pricing or estimation of costs in contracts based on other than competitive sealed bidding;
 - (b) The pricing or estimation of costs in change orders or contract modifications;
 - (c) Settlement of contract costs for contracts which have been terminated; and
 - (d) Allowability of costs under contract provisions which provide for reimbursement of costs.
- 3300.4 In addition to those contracts where the application of cost principles is required under the Act or this title, the contracting officer may include a clause, approved by the Director, requiring the use of cost principles and procedures set forth in

this chapter to determine the allowability of estimated or incurred costs in any contract where the contracting officer determines that the negotiation, allowance, determination, or estimation of costs may be required or necessary.

3300.5 The application of cost principles to fixed-price contracts and subcontracts shall not be construed as a requirement to negotiate agreements on individual elements of cost in arriving at agreement on the total price. The final price accepted by the parties may reflect agreement only on the total price.

3300.6 The cost principles and procedures set forth in this chapter shall not apply to the following:

- (a) The establishment of prices under contracts awarded on the basis of competitive sealed bidding;
- (b) Prices fixed by law or regulation; or
- (c) Prices based on established catalog prices or established market prices.

AUTHORITY: Unless otherwise noted, the authority for this chapter is the District of Columbia Procurement Practices Act of 1985, D.C. Law 6-85, as amended, D.C. Code §1-1181.1 *et seq.* (1981).

SOURCE: Final Rulemaking published at 35 DCR 1650 (February 26, 1988).

3301 ADVANCE COST AGREEMENTS

3301.1 Advance cost agreements may be negotiated either before or after contract award. However, advance cost agreements shall be negotiated before a significant portion of the costs covered by the agreement have been incurred.

3301.2 Advance cost agreements shall be in writing, signed by the contracting officer and the contractor, and shall be incorporated by reference in the contract.

3301.3 The contracting officer shall not agree to a treatment of costs that is inconsistent with the cost principles set forth in this chapter, except as provided in §3302.

3301.4 Advance cost agreements may be negotiated with a contractor for a single contract, a group of contracts, or all the contracts between that contractor and the District.

3301.5 Before negotiating an advance cost agreement, the contracting officer shall do the following:

- (a) Determine if other contracting offices inside the agency or in other agencies have a significant unliquidated dollar balance in contracts with the same contractor; and
- (b) Inform the other offices or agencies identified under §3301.5(a) of the matters under consideration for negotiation and, as appropriate, invite those other offices or agencies to participate in prenegotiation discussions.

SOURCE: Final Rulemaking published at 35 DCR 1651 (February 26, 1988).

3302 DEVIATION FROM COST PRINCIPLES

- 3302.1 The contracting officer may recommend to the Director a deviation from the cost principles set forth in this chapter if the contracting officer determines in writing that the deviation would be in the best interests of the District.
- 3302.2 The contracting officer's recommendation for a deviation shall be in writing and shall set forth the reasons and justifications for the proposed deviation.
- 3302.3 A deviation shall be effective only upon written approval by the Director and incorporation in the contract.
- 3302.4 The Director shall not approve a deviation under this section unless the costs agreed to under the deviation are reasonable, lawful, allocable, and accounted for in accordance with generally accepted accounting principles.

SOURCE: Final Rulemaking published at 35 DCR 1651 (February 26, 1988).

§§3303-3304: RESERVED**3305 TOTAL COSTS**

- 3305.1 The total cost of a contract shall be the sum of the allowable direct and indirect costs allocable to the contract, incurred or to be incurred, less any allocable credits.
- 3305.2 In ascertaining what constitutes a cost, the contracting officer may consider any generally accepted method of determining or estimating costs that is equitable and is consistently applied, including standard costs properly adjusted for applicable variances.
- 3305.3 Whenever a contractor is required by the District to submit a price proposal, the contractor shall estimate costs in a manner consistent with generally accepted cost accounting practices which are consistently applied, and which are consistent with the provisions of this chapter.

SOURCE: Final Rulemaking published at 35 DCR 1652 (February 26, 1988).

3306 DETERMINING ALLOWABILITY

- 3306.1 When determining whether a cost is allowable, the contracting officer shall consider the following factors:
- (a) Reasonableness;
 - (b) Allocability;

- (c) Consistency with generally accepted accounting principles and practices appropriate to the particular circumstances;
- (d) The terms of the contract;
- (e) Consistency with the limitations set forth in this chapter; and
- (f) Consistency with any applicable law.

3306.2 If a contractor's accounting practices are inconsistent with this chapter, the contracting officer shall not allow costs resulting from those practices in excess of the amount that would have resulted from using practices consistent with this chapter.

SOURCE: Final Rulemaking published at 35 DCR 1652 (February 26, 1988).

3307 DETERMINING REASONABLENESS

3307.1 The contracting officer shall determine a cost to be reasonable if it does not differ from or exceed in amount that which would be incurred by a prudent person in the conduct of a competitive business, in accordance with the provisions of this chapter.

3307.2 In determining the reasonableness of a given cost, the contracting officer shall consider the following factors:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the conduct of the contractor's business or the performance of the contract;
- (b) The restraints or requirements imposed by generally accepted sound business practices, arms length bargaining, federal and District laws and regulations, and contract terms and specifications;
- (c) The action that a prudent business person would take, considering responsibilities to the owner of the business, employees, customers, the District, and the public at large;
- (d) Any significant deviations from the established practices of the contractor that may unjustifiably increase the contract costs; and
- (e) Any other relevant factors.

SOURCE: Final Rulemaking published at 35 DCR 1653 (February 26, 1988).

3308 DETERMINING ALLOCABILITY

3308.1 The contracting officer shall determine that a cost is allocable if the cost is assignable or chargeable to one (1) or core cost objectives on the basis of relative benefits received or other equitable relationship, in accordance with §3308.2.

3308.2 The contracting officer shall consider a cost allocable to a District contract if the cost meets one (1) or more of the following criteria:

- (a) The cost is incurred specifically for the contract;

- (b) The cost benefits both the contract and other work, and can be distributed to both in reasonable proportion to the benefits received; or
- (c) The cost is necessary to the overall operation of the business, although a direct relationship to any particular cost objective may not be evident.

SOURCE: Final Rulemaking published at 35 DCR 1653 (February 26, 1988).

§3309: RESERVED

3310 CREDITS

- 3310.1 The contracting officer shall credit to the District as a cost reduction, or by cash refund, the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost which is received by or accrued to the contractor.

SOURCE: Final Rulemaking published at 35 DCR 1654 (February 26, 1988).

3311 ACCOUNTING FOR UNALLOWABLE COSTS

- 3311.1 The contracting officer shall identify and exclude from each billing, claim, and proposal costs that are expressly unallowable under this chapter or mutually agreed to be unallowable under an advance cost agreement.
- 3311.2 When costs are identified as unallowable or mutually agreed to be unallowable, all directly associated costs shall also be unallowable.
- 3311.3 Costs and directly associated costs specifically designated as unallowable as a result of a written decision by a contracting officer shall be identified when included in or used in computing any billing, claim, or proposal applicable to a District contract.
- 3311.4 The contracting officer shall require records as support for claims, billings, and proposals that are adequate to establish and maintain visibility of those costs, and directly associated costs, which have been identified as unallowable.
- 3311.5 The contracting officer shall identify unallowable costs involved in determining rates used for standard costs, indirect cost proposals, or billings at the time rates are proposed, established, revised, or adjusted.

SOURCE: Final Rulemaking published at 35 DCR 1654 (February 26, 1988).

3312 DIRECT COSTS

- 3312.1 Direct costs associated with District contracts shall be segregated from other costs and recorded in accounts identifying them with the particular contract or cost objective to the maximum extent possible.

3312.2 Costs specifically identified with final cost objectives that are unrelated to District contracts, including other contracts or general business objectives of the contractor, shall not be charged to a District contract directly or indirectly.

3312.3 Any direct cost of a minor dollar amount may be treated as an indirect cost if the accounting treatment used is consistently applied and produces substantially the same result as treating the cost as a direct cost. A minor dollar amount shall be an amount not in excess of one half percent (1/2%) of the contract price.

3312.4 Any cost that has been allocated to any indirect cost pool or objective shall not be allowed as a direct cost.

SOURCE: Final Rulemaking published at 35 DCR 1655 (February 26, 1988).

3313 INDIRECT COSTS

3313.1 An indirect cost shall not be allocated to a District contract if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that contract or any final cost objective not related to the District contract.

3313.2 Indirect costs shall be accumulated into logical groupings known as "indirect cost pools."

3313.3 The contractor's method of allocating indirect costs shall be in accordance with generally accepted accounting principles which are consistently applied, in accordance with the provisions of this chapter.

3313.4 The contracting officer shall examine the contractor's method of allocating indirect costs when any of the following apply:

- (a) A substantial difference exists between the cost patterns of work performed under the contract and the contractor's other work;
- (b) A significant change occurs in the nature of the contractor's business, extent of subcontracting, fixed asset improvement programs, inventories, volume of sales and production, manufacturing process, products, or other relevant circumstances; or
- (c) Indirect cost groups developed for a contractor's primary location are applied to off-site locations, in which case separate cost groups for costs allocable to off-site locations may be necessary to distribute the contractor's costs on the basis of the benefits accruing to the appropriate cost objective.

3313.5 The contracting officer shall consider the base period for indirect cost allocation as the one in which the costs are incurred and accumulated for distribution to work performed in that period.

SOURCE: Final Rulemaking published at 35 DCR 1655 (February 26, 1988).

§3314: RESERVED

3315 PRE-CONTRACT COSTS

- 3315.1 Pre-contract costs shall include costs incurred in anticipation of, and prior to, the effective date of the contract.
- 3315.2 Pre-contract costs which are necessary to comply with the proposed contract delivery schedule shall be allowable to the extent that they would have been allowable if incurred after the date of the contract; Provided, that the contract shall set forth the period of time and maximum amount that will be covered as allowable pre-contract costs.

SOURCE: Final Rulemaking published at 35 DCR 1656 (February 26, 1988).

3316 BID AND PROPOSAL COSTS

- 3316.1 Bid and proposal costs shall include costs incurred in preparing, submitting, and supporting bids and proposals.
- 3316.2 Ordinary and reasonable bid and proposal costs shall be allowable as indirect costs in accordance with the cost principles set forth in this chapter.
- 3316.3 Bid and proposal costs shall be allowable as direct costs only to the extent that they are specifically permitted by a provision of the contract or solicitation.
- 3316.4 If bid and proposal costs are allowable as direct costs, the same bid and proposal costs shall not be charged as indirect costs.

SOURCE: Final Rulemaking published at 35 DCR 1656 (February 26, 1988).

§3317: RESERVED**3318 TERMINATION FOR CONVENIENCE COSTS**

- 3318.1 The costs of items reasonably usable on the contractor's other work shall not be allowable upon termination of a contract for the convenience of the District unless the contractor submits evidence that the items could not be retained at cost without sustaining a loss.
- 3318.2 Costs which cannot be discontinued immediately after the effective date of the termination may be allowed. However, any costs continuing after the effective date of the termination due to the negligent or willful failure of the contractor to discontinue the costs shall not be allowable.
- 3318.3 Initial costs, such as starting load and preparatory costs, shall be allowable in the following circumstances:

- (a) When starting load costs not fully absorbed because of termination are nonrecurring labor, material, and related overhead costs incurred in the early part of production and result from factors such as the following:
 - (1) Excessive spoilage due to inexperienced labor;
 - (2) Idle time and subnormal production due to testing and changing production methods;
 - (3) Training; and
 - (4) Lack of familiarity or experience with the product, materials, or manufacturing processes; and
 - (b) When costs incurred in preparing to perform the terminated contract include costs such as those incurred for initial plant rearrangement and alterations, management and personnel organization, and production planning, but not special machinery and equipment and starting load costs.
- 3318.4 When initial costs are included in the settlement proposal as direct costs, those costs shall not also be included in overhead. Initial costs attributable only to a single contract shall not be allocated to other contracts.
- 3318.5 The loss of useful value of special tooling, or special machinery and equipment, shall be allowed if the following factors apply:
 - (a) The special tooling, or special machinery and equipment, is not reasonably capable of use in the other work of the contractor;
 - (b) The District's interest is protected by transfer of title to the District or by other means deemed appropriate by the contracting officer; and
 - (c) The loss of useful value for a single terminated contract is limited to that portion of the procurement cost which bears the same ratio to the total procurement cost as the terminated portion of the contract bears to the entire terminated contract and other District contracts for which the special tooling or special machinery and equipment was procured.
- 3318.6 Rental costs under an unexpired lease, less the residual value of the lease, shall be allowable when the contracting officer determines that the lease was reasonably necessary for the performance of the terminated contract. The following limitations shall apply:
 - (a) The amount of rental claimed shall not exceed the reasonable use value of the property leased for the period of the contract and any further period that may be reasonable; and
 - (b) The contractor shall make all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of the lease.
- 3318.7 The contract may provide that the costs of alterations and reasonable restorations required by a lease are allowable.

3318.8 The costs of settlement of the termination (such as accounting, legal, clerical, and similar costs reasonably necessary for the preparation and presentation of settlement claims to the contracting officer) shall be allowable. Indirect costs related to salary and wages incurred as a result of the preparation and presentation of settlement claims shall be allowable.

3318.9 Costs of termination and settlement of subcontracts, as well as subcontractor claims as a result of a termination, shall be allowable except as provided in §3707.

SOURCE: Final Rulemaking published at 35 DCR 1657 (February 26, 1988).

§3319: RESERVED

3320 AUTOMATIC DATA PROCESSING EQUIPMENT LEASING COSTS

3320.1 The provisions of this section shall apply to all contractor-leased automatic data processing (ADP) equipment procured under operating leases, except as components of an end item to be delivered to the District.

3320.2 The costs of leasing ADP equipment shall be allowable only to the extent that the contractor can demonstrate that the costs meet the following criteria:

- (a) The costs are reasonable and necessary for the conduct of the contractor's business in light of factors such as the contractor's requirements for ADP equipment, costs of comparable facilities, the various types of leases available, and the terms of the lease agreement;
- (b) The costs do not give rise to a material equity in the equipment, such as an option to renew or purchase at a bargain lease rate or price other than that normally given to industry at large, but represent charges only for the current use of the equipment, including incidental service costs, such as maintenance, insurance, and applicable taxes; and
- (c) The contracting officer's approval is obtained for the leasing arrangement when the total costs of leasing the ADP equipment is to be allocated to one (1) or more District contracts which require negotiating or determining costs; or the ADP equipment in a single plant or division exceeds five hundred thousand dollars (\$500,000) a year, and fifty percent (50%) or more of the total cost is allocated to one (1) or more District contracts which require negotiating or determining costs.

3320.3 If the contractor leases ADP equipment but cannot demonstrate, on the basis of facts existent at the time of the decision to lease or continue leasing and documented in accordance with this section, that leasing will result in less cost to the District over the anticipated useful life of the equipment, then leasing costs shall be allowable only up to the amount that would be allowed if the contractor purchased the equipment.

- 3320.4 Lease costs under a sale and leaseback arrangement shall be allowable only up to the amount that would have been allowed if the contractor retained title to the ADP equipment.
- 3320.5 Allowable leasing costs of ADP equipment leased from any division, subsidiary, or organization under a common control shall be limited to the cost of ownership excluding interest or other costs which are not allowable under this chapter.
- 3320.6 When there is an established practice of leasing the same or similar ADP equipment to unaffiliated lessees, leasing costs shall be allowable in accordance with §§3320.2, 3320.7, 3320.8 and 3320.9, except that the purchase price and costs of ownership shall be determined in accordance with the provisions of §3324.
- 3320.7 The contractor's estimate of the anticipated useful life of the ADP equipment may represent the application life (utility in a given function), technological life (utility before becoming obsolete in whole or in part), or physical life (utility before wearing out), depending upon the facts, circumstances, and the particular facilities involved.
- 3320.8 In estimating anticipated useful life, the contractor may use the application life if it can be demonstrated the ADP equipment has utility only in a given function and the duration of the function can be determined.
- 3320.9 The contractor may use the technological life to determine anticipated useful life if it can demonstrate that existing ADP equipment must be replaced because of one (1) or more of the following reasons:
- (a) Specific program objectives or contract requirements cannot be accomplished with existing ADP equipment;
 - (b) Cost reductions will produce identifiable savings in production or overhead costs;
 - (c) Increase in workload volume cannot be accomplished efficiently by modifying or augmenting existing ADP equipment; or
 - (d) A consistent pattern of capacity operation, including multiple shifts, exists on existing ADP equipment.
- 3320.10 In estimating the lease cost to the District for the anticipated useful life of the ADP equipment, the contracting officer shall compare the cumulative costs that would be allowed if the contractor owned the ADP equipment with cumulative costs that would be allowed under any of the various types of leasing arrangements available. For the purposes of this comparison, the costs of ADP equipment shall exclude interest or other unallowable costs.
- 3320.11 The contractor's justification of a leasing decision, when required by the contracting officer, shall consist of the following data:
- (a) Analysis of use of existing ADP equipment;
 - (b) The application of the criteria to allow cost of leasing ADP equipment as specified in this chapter;

- (c) Specific objectives or requirements, generally in the form of a data system study and specification;
- (d) Solicitation of proposals, based on the data system specifications, from qualified sources; and
- (e) Proposals received in response to the solicitation, the reasons for selecting the equipment chosen, and the basis of the decision to lease.

SOURCE: Final Rulemaking published at 35 DCR 1659 (February 26, 1988).

3321 DEPRECIATION AND USE ALLOWANCES

- 3321.1 Normal depreciation on a contractor's plant, equipment, and other capital facilities shall be allowable. The contracting officer shall require the contractor to demonstrate that the depreciation costs are reasonable and allocable.
- 3321.2 Depreciation shall be considered reasonable if the contractor demonstrates the following:
 - (a) The methods for determining depreciation costs are consistent with those followed by businesses (other than the government) with respect to each class of property;
 - (b) The depreciation costs are reflected in the contractor's books of accounts and financial statements; and
 - (c) The depreciation costs are both used and acceptable for federal income tax purposes.
- 3321.3 The computation of depreciation or use allowances shall be based on acquisition costs. If acquisition costs are unknown, a reasonable estimate may be used.
- 3321.4 Depreciation shall be computed using any generally accepted accounting method. The method shall be consistently applied and result in equitable charges considering the use of the property.
- 3321.5 The contracting officer shall accept any method of depreciation which is accepted by the Internal Revenue Service.
- 3321.6 A use allowance shall be allowable if it is computed in accordance with an established industry or government schedule or other method mutually agreed upon by the contracting officer and the contractor.

SOURCE: Final Rulemaking published at 35 DCR 1661 (February 26, 1988).

3322 MAINTENANCE, REPAIR, SERVICE, AND WARRANTY COSTS

- 3322.1 Costs necessary for the upkeep of real or personal property, including District property, unless otherwise provided for, that do not add to the permanent value of the

property or appreciably prolong its intended life, but keep it in an efficient operating condition, shall be allowable, as follows:

- (a) Normal maintenance and repair costs shall be allowable; and
- (b) Extraordinary maintenance and repair costs shall be allowable, and these costs shall be allocated to the applicable periods for purposes of determining contract costs.

3322.2 Expenditures for plant and equipment, including rehabilitation that is capitalized and subject to depreciation, shall be allowable only on a depreciation basis.

3322.3 Service and warranty costs that include costs arising from the fulfillment of any contractual obligation to provide services (such as installation, training, correcting defects in the products, replacing defective parts, and making refunds in the case of inadequate performance) shall be allowable when consistent with the terms of the contract and when the allowance of the costs would not result in a double payment by the District for correction of defects.

SOURCE: Final Rulemaking published at 35 DCR 1662 (February 26, 1988).

3323 MANUFACTURING AND PRODUCTION ENGINEERING COSTS

3323.1 Costs incident to the following activities related to manufacturing and production engineering shall be allowable if required or approved under the contract:

- (a) Developing and deploying new or improved materials, systems, processes, methods, equipment, tools, and techniques that are or are expected to be used in producing products or services;
- (b) Developing and deploying pilot production lines;
- (c) Improving current production functions, such as plant layout, production scheduling and control, methods and job analysis, equipment capabilities and capacities, inspection techniques, and tooling analysis, including tooling design and application improvements; and
- (d) Material and manufacturing producibility analysis for production suitability and the optimization of manufacturing processes, methods, and techniques.

SOURCE: Final Rulemaking published at 35 DCR 1662 (February 26, 1988).

3324 MATERIAL COSTS

3324.1 Costs of material shall be allowable.

3324.2 In determining the cost of materials, consideration shall be given to reasonable overruns, spoilage, or defective work.

3324.3 Material costs shall include adjustments for all available discounts, refunds, rebates, and allowances.

- 3324.4 Material costs shall include adjustments for credits for proceeds the contractor received or reasonably should receive from salvage and material returned to suppliers.
- 3324.5 Allowance for all materials, supplies, and services that are sold or transferred between any divisions, subsidiaries, or affiliates of the contractor under a common control shall be made on the basis of costs incurred in accordance with this chapter.
- 3324.6 The contracting officer may allow the transfer under §3324.5 at a price agreed to by the contracting officer if the following apply:
- (a) The price of the materials is determined to be reasonable by the contracting officer;
 - (b) The price is not higher than the transferor's current sales price to its most favored customer for a similar quantity under similar payment and delivery conditions; and
 - (c) The price is established either by established catalog price or the lowest price offer obtained through competitive sealed bidding or competitive sealed proposals with similar businesses.
- 3324.7 When materials are purchased specifically for and are identifiable solely with performance under a contract, the actual purchase cost of those materials may be charged to the contract. If material is issued from stores, any generally recognized method for pricing the material shall be acceptable if that method is consistently applied and the results are equitable.

SOURCE: Final Rulemaking published at 35 DCR 1663 (February 26, 1988).

3325 PATENT AND ROYALTY COSTS

- 3325.1 The following patent costs shall be allowable to the extent that they are incurred as a requirement of a District contract and where title or a royalty-free perpetual license is to be conveyed to the District:
- (a) Costs of preparing invention disclosures, reports, and other documents;
 - (b) Costs for searching the art to the extent necessary to make the invention disclosures; and
 - (c) Other costs in connection with the filing and prosecution of the United States patent application.
- 3325.2 General counseling services relating to patent matters, such as advice on patent laws, regulations, clauses, and employee agreements, shall be allowable.
- 3325.3 Royalties on a patent or amortization of the cost of purchasing a patent or patent rights necessary for the proper performance of the contract and applicable to contract products or processes shall be allowable unless one (1) or more of the following apply:

- (a) The District has a license or the right to a free use of the patent;
- (b) The patent has been adjudicated to be invalid or has been administratively determined to be invalid;
- (c) The patent is unenforceable; or
- (d) The patent has expired.

3325.4 In any case involving a patent formerly owned by the contractor, the contracting officer shall not allow a royalty amount in excess of the cost which would have been allowed if the contractor had retained title.

SOURCE: Final Rulemaking published at 35 DCR 1664 (February 26, 1988).

3326 LEASING COSTS OTHER THAN AUTOMATIC DATA PROCESSING EQUIPMENT

3326.1 Except as provided in §3320, leasing costs under operating leases shall be allowable to the extent that the rates are reasonable at the time of the lease decision, after consideration of the following:

- (a) Leasing costs of comparable property, if any;
- (b) Market conditions in the area;
- (c) The type, life expectancy, condition, and value of the property leased;
- (d) Alternatives available; and
- (e) Other provisions of the lease agreement.

3326.2 Leasing costs under a sale and leaseback arrangement shall be allowable only up to the amount the contractor would be allowed if the contractor retained title.

3326.3 Charges in the nature of leasing costs for property between any divisions, subsidiaries, or organization under common control shall be allowable to the extent that they do not exceed the normal costs of ownership, such as depreciation, taxes, insurances, and maintenance. No part of the costs shall duplicate any other allowed costs.

SOURCE: Final Rulemaking published at 35 DCR 1665 (February 26, 1988).

3327 SELLING COSTS

3327.1 Selling costs shall be allowable to the extent that they are reasonable and are allocable to the District contract.

3327.2 The contracting officer shall determine allocability of selling costs in the light of reasonable benefit to the District arising from activities, such as technical, consulting, demonstration, and other services, which are the application or adaptation of the contractor's products to District use for its own requirements or similar purposes.

- 3327.3 Sellers' or agents' compensation, fees, commissions, percentages, or brokerage fees shall be allowable only when paid to *bona fide* employees or established commercial or selling agencies maintained by the contractor for the purpose of securing business.

SOURCE: Final Rulemaking published at 35 DCR 1665 (February 26, 1988).

3328 SPECIAL TOOLING AND SPECIAL TEST EQUIPMENT COSTS

- 3328.1 The cost of special tooling and special test equipment used in performing one (1) or more District contracts shall be allowable and shall be allocated to the specific District contract or contracts for which it was procured.

- 3328.2 The cost of items procured by the contractor before the effective date of the contract, or the replacement of those items, whether altered or adapted for use in performing the contract, and items which the contract schedule specifically excludes shall be allowable only as depreciation or amortization.

- 3328.3 If items are disqualified as special tooling or special test equipment because they can be made suitable for general purpose use at relatively minor cost and have a general use value commensurate with their value as special tooling or special test equipment, the cost of adapting the items for use under the contract and the cost of returning them to their prior configuration shall be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1666 (February 26, 1988).

§3329: RESERVED

3330 BAD DEBTS

- 3330.1 Bad debts, including losses arising from uncollectable accounts receivable due from customers and other claims, and any directly associated costs, such as collection costs and legal costs, shall not be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1666 (February 26, 1988).

3331 BONDING COSTS

- 3331.1 Bonding costs shall be allowable when required under the terms of the contract.

- 3331.2 Bonding costs attributable to the performance of District contracts shall be allowable when required by the contractor in the general conduct of its business to the extent that the bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

SOURCE: Final Rulemaking published at 35 DCR 1666 (February 26, 1988).

3332 INSURANCE AND INDEMNIFICATION COSTS

- 3332.1 The cost of required or approved insurance that is maintained by the contractor pursuant to the contract shall be allowable.
- 3332.2 The cost of insurance maintained by the contractor in connection with the general conduct of its business shall be allowable, in accordance with the provisions of this section.
- 3332.3 The contracting officer shall determine that the types and extent of coverage follow sound business practice, and that the rates and premiums are reasonable.
- 3332.4 Costs allowed for business interruption or other similar insurance shall exclude the cost of coverage for loss of profit.
- 3332.5 The cost of property insurance premiums for insurance coverage in excess of the acquisition cost of the insured assets shall be allowable only when the contractor has a formal written policy assuring that in the event the insured property is involuntarily converted, the new asset shall be valued at the book value of the replaced asset plus or minus adjustments for differences between insurance proceeds and actual replacement cost. If the contractor does not have a formal written policy with this assurance, the cost of premiums for insurance coverage in excess of the acquisition cost of the insured asset shall not be allowable.
- 3332.6 Costs of insurance for the risk of loss of or damage to District property shall be allowable only to the extent that the contractor is liable for loss or damage to District property and to the extent that insurance does not cover loss or damage that results from willful misconduct or lack of good faith on the part of the contractor, its directors, officers, or agents.
- 3332.7 Actual losses shall not be allowable unless expressly provided for in the contract, except as follows:
- (a) Losses incurred under the nominal deductible provisions of purchased insurance, in keeping with sound business practices, shall be allowable when the contractor did not establish a self-insurance program; and
 - (b) Minor losses, such as spoilage, breakage, and disappearance of small hand tools, that occur in the ordinary course of doing business and that are not covered by insurance shall be allowable.
- 3332.8 The cost of insurance to protect the contractor against the costs of correcting its own defects in materials or workmanship shall not be allowable. However, insurance costs to cover fortuitous or casualty losses resulting from defects in materials or workmanship shall be allowable as a normal business expense.

SOURCE: Final Rulemaking published at 35 DCR 1666 (February 26, 1988).

3333 INTEREST AND OTHER FINANCIAL COSTS

- 3333.1 Interest on borrowings (however represented), bond discounts, costs of financing and refinancing capital (net worth plus long-term liabilities), legal and professional fees

paid in connection with preparing prospectuses, costs of preparing and issuing stock rights, and directly associated costs shall not be allowable, except for interest assessed by state or local taxing authorities in accordance with §3335.

SOURCE: Final Rulemaking published at 35 DCR 1668 (February 26, 1988).

3334 ORGANIZATION COSTS AND OTHER BUSINESS COSTS

3334.1 Expenditures in connection with planning or executing the organization or reorganization of the corporate structure of a business, including mergers and acquisitions, or raising capital (net worth plus long-term liabilities) shall not be allowable.

3334.2 The cost of any change in the contractor's financial structure, excluding administrative costs of short-term borrowings for working capital, or changes that result in alterations in the rights and interests of security holders, whether or not additional capital is raised, shall not be allowable.

3334.3 The following recurring costs shall be allowable when allocated on an equitable basis:

- (a) Registry and transfer charges resulting from changes in ownership of securities issued by the contractor;
- (b) The cost of shareholders' meetings;
- (c) The cost of normal proxy solicitations;
- (d) The cost of preparing and publishing reports to shareholders;
- (e) The cost of preparing and submitting required reports and forms to taxing and other regulatory bodies;
- (f) Incidental costs of directors' and committee meetings; and
- (g) Other similar costs.

SOURCE: Final Rulemaking published at 35 DCR 1668 (February 26, 1988).

3335 TAXES

3335.1 Except as provided in §3335.2, District, federal, state, and local taxes that are required to be and are paid or accrued in accordance with generally accepted accounting principles shall be allowable.

3335.2 The following costs shall not be allowable:

- (a) District, federal, state, and local income taxes and federal excess profit taxes;
- (b) All taxes from which the contractor could have obtained an exemption but failed to do so, except where the administrative cost of obtaining the exemption would have exceeded the tax savings realized from the exemption;
- (c) Any interest, fines, or penalties paid on delinquent taxes unless incurred at the written direction of the contracting officer;

- (d) Income tax accruals designed to account for the tax effects of differences between taxable income and pre-tax income as reflected by the contractor's books of accounts and financial statements;
- (e) Taxes in connection with financing, refinancing, refunding operations, or reorganization;
- (f) Special assessments on land that represent capital improvements;
- (h) Taxes (including excise taxes) on real or personal property (or on the value, use, possession, or sale of personal property) which is used solely in connection with work other than on District contracts; and
- (h) Taxes on accumulated funding deficiencies of, or prohibited transactions involving, employee deferred compensation plans pursuant to the Internal Revenue Code.

3335.3 Any taxes, interest, or penalties that were allowed as contract costs and are refunded to the contractor shall be credited or paid to the District in the manner the District directs. However, any interest actually paid or credited to a contractor incident to a refund of tax, interest, or penalty shall be paid or credited to the District only to the extent that the interest accrued over the period during which the contractor had been reimbursed by the District for the taxes, interest, or penalties.

3335.4 Direct government charges for services, such as water or capital improvements, are not considered taxes and shall not be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1669 (February 26, 1988).

3336 LOSSES ON OTHER CONTRACTS

3336.1 An excess of costs over income under any other contract, including the contractor's contributed portion under cost-sharing contracts, shall not be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1670 (February 26, 1988).

§§3337-3339: RESERVED

3340 COMPENSATION FOR EMPLOYEE SERVICES

3340.1 Compensation for employee services shall include all remuneration paid or accrued, in any form and whether paid immediately or deferred, for services rendered by employees to the contractor during the period of contract performance.

3340.2 Compensation for employee services shall be allowable when the work is performed by the employee in the current year and does not represent a retroactive adjustment of a prior year's salaries or wages.

- 3340.3 The total compensation for employee services shall be reasonable for the work performed. Specific restrictions on individual compensation elements shall be observed where they are prescribed in the contract or advance cost agreement.
- 3340.4 Increases in costs for compensation for employee services shall not be allowable when the contractor introduces new or major revisions to existing compensation plans unless the contractor does the following before the changes are implemented:
- (a) Notifies the contracting officer of the changes; and
 - (b) Allows the contracting officer an opportunity to review the allowability of the changes.
- 3340.5 Costs that are not allowable under other sections of this chapter shall not be allowable solely on the basis that they constitute compensation for employee services.
- 3340.6 Compensation for employee services shall be considered reasonable to the extent that the total amount paid or accrued is commensurate with compensation paid under the contractor's established policy and the amount conforms generally to compensation paid by other firms of the same size, in the same industry, or in the same geographic area for similar services.
- 3340.7 The contracting officer shall determine whether compensation of the following persons, and their spouses or children, is reasonable for the services performed or is a distribution of profits;
- (a) Owners of closely held corporations;
 - (b) Partners; and
 - (c) Sole proprietors.
- 3340.8 Bonuses and incentive compensation shall be allowable to the extent that the overall compensation is determined to be reasonable and the costs are paid or accrued pursuant to an agreement entered into in good faith between the contractor and the employee before the services are rendered, or pursuant to an established, consistently applied plan followed by the contractor.
- 3340.9 The contracting officer shall consider severance pay allowable where it is required by law, an employer-employee agreement, established policy that constitutes an obligation of the contractor, or circumstances of the particular employment.
- 3340.10 The contracting officer shall allow pension costs to the extent that the costs are reasonable and meet the following criteria:
- (a) The costs are funded by the time set for filing the federal income tax return, or any extension, to be considered in the current year; and
 - (b) The costs are paid pursuant to an agreement between the contractor and employees before the services are rendered and pursuant to an established plan that is consistently applied.

3340.11 The contracting officer shall allow the costs of fringe benefits to the extent that they are reasonable and required by law, by an employer-employee agreement, or as an established, consistently applied policy of the contractor.

3340.12 Legitimate costs incurred on activities designed to improve working conditions, employee morale, and employee performance shall be allowable. If a net profit is generated by these services, it shall be treated as a credit as provided in §3310 of this chapter.

SOURCE: Final Rulemaking published at 35 DCR 1670 (February 26, 1988).

3341 PERSONNEL COSTS RELATED TO LABOR-MANAGEMENT AGREEMENTS

3341.1 The costs of employee services based on a labor-management agreement shall be allowable only to the extent that the contracting officer determines that the agreement does not discriminate against the District and the personnel costs are warranted by the character and circumstances of the work performed under the contract. A labor-management agreement shall be deemed to discriminate against the District if it results in employee compensation in any form that is in excess of compensation paid for non-District work under similar circumstances.

3341.2 The contracting officer shall not disallow costs for compensation resulting from labor-management agreements unless the contractor has been permitted an opportunity to justify the costs and consideration has been given to whether unusual conditions pertain to the District contract work which imposes burdens, hardships, or hazards on the contractor's employees for which compensation that might otherwise appear unreasonable is required to attract and hold necessary personnel,

SOURCE: Final Rulemaking published at 35 DCR 1672 (February 26, 1988).

3342 COSTS OF BACK PAY

3342.1 The cost of back pay resulting from violations of applicable District law, federal labor laws, or the Civil Rights Act of 1964 where the employee was underpaid shall be allowable.

3342.2 All other back pay resulting from violations of applicable District law, federal labor laws, or the Civil Rights Act of 1964 (such as when the employee was improperly discharged, discriminated against, or other circumstances for which the back pay was not additional compensation for work performed) shall not be allowable.

3342.3 The cost of back pay resulting from payments to union employees for the difference in their past and current wage rates for working without a contract or labor agreement during labor management negotiations shall be allowable.

3342.4 The cost of back pay to non-union employees based on results of labor-management negotiations shall be allowable only if a formal agreement or understanding exists between management and the employees concerning the payment or an established policy or practice exists and is consistently followed by the contractor.

SOURCE: Final Rulemaking published at 35 DCR 1672 (February 26, 1988).

3343 LABOR RELATIONS COSTS

- 3343.1 Costs incurred in maintaining satisfactory relations between the contractor and its employees, including costs of shop stewards, labor management committees, employee publications, and other related activities, shall be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1673 (February 26, 1988).

3344 EXPERT AND CONSULTANT SERVICES COSTS

- 3344.1 Except as provided in §3344.2, costs of expert and consultant services shall be allowable when reasonable in relation to the services rendered and when not contingent upon recovery of costs from the District.

- 3344.2 In determining the allowability of expert and consultant services costs, the contracting officer shall consider the following:

- (a) The nature and scope of the services rendered in relation to the services required under the contract;
- (b) The necessity of contracting for the service, considering the contractor's capability in the particular area;
- (c) The past pattern of the contractor's incurring this type of costs, particularly in the years prior to the award of District contracts;
- (d) The impact of District contracts in the contractor's business;
- (e) Whether the proportion of District work to the contractor's total business justifies incurring the cost, particularly when the services rendered are not of a continuing nature and have little relationship to work under District contracts;
- (f) Whether the service can be performed more economically by employment rather than by contracting;
- (g) The qualifications of the individual or firm rendering the service and the customary fee charged, especially on non-government contracts; and
- (h) The adequacy of the contractual agreement for the services, including the description of the service, the estimate the time required, rate of compensation, and termination provisions.

- 3344.3 Fees for services rendered shall be allowable only when supported by evidence of the nature and scope of the service furnished.

SOURCE: Final Rulemaking published at 35 DCR 1673 (February 26, 1988).

3345 RECRUITMENT COSTS

- 3345.1 If the size of the staff recruited and maintained is in keeping with District contract workload requirements, the following costs shall be allowable:

- (a) Costs of help-wanted advertising;
- (b) Costs of operating an employment office needed to secure and maintain an adequate labor force;
- (c) Costs of operating an aptitude and educational testing program;
- (d) Travel costs of employees engaged in recruiting personnel;
- (e) Travel costs of applicants for interviews; and
- (f) Costs of employment agencies not in excess of standard commercial rates.

3345.2 Recruitment and advertising costs shall not be allowable when any of the following apply:

- (a) The advertising or recruitment is for personnel other than those required to perform obligations under a District contract;
- (b) The advertising does not describe specific positions or classes of positions;
- (c) The advertising or recruitment is excessive relative to the number and importance of the positions or to the industry practices;
- (d) The advertising includes material that is not relevant for recruitment purposes, such as extensive illustrations, the use of color, or descriptions of the company's products or capabilities; or
- (e) The advertising or recruitment is designed to hire personnel from another District contractor.

SOURCE: Final Rulemaking published at 35 DCR 1674 (February 26, 1988).

3346 RELOCATION COSTS

3346.1 Relocation costs incident to the permanent change of duty assignment, for an indefinite period or for a stated period of not less than twelve (12) months, of an existing employee or upon recruitment of a new employee shall not be allowable unless specifically provided for in the contract.

SOURCE: Final Rulemaking published at 35 DCR 1675 (February 26, 1988).

§§3347-3349: RESERVED

3350 ADVERTISING COSTS

3350.1 Advertising costs that arise from requirements of a District contract shall be allowable for the following purposes only:

- (a) Recruiting personnel required for performing contractual obligations, when considered in conjunction with all other recruitment costs under §3345;
- (b) Procuring scarce items for contract performance;
- (c) Disposing of scrap or surplus materials procured for contract performance; or
- (d) Notices or advertisements required by law or regulations.

SOURCE: Final Rulemaking published at 35 DCR 1675 (February 26, 1988).

3351 CONTINGENCIES

3351.1 The contracting officer shall not allow contingency costs except in the case of a termination.

3351.2 A contingency factor may be allowed in connection with a termination when it is applicable to a past period to give recognition to minor unsettled factors in the interest of expediting settlement.

SOURCE: Final Rulemaking published at 35 DCR 1675 (February 26, 1988).

3352 CONTRIBUTIONS AND DONATIONS

3352.1 Contributions and donations shall not be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1676 (February 26, 1988).

3353 ENTERTAINMENT COSTS

3353.1 Costs of amusement, diversion, social activities, and any directly associated costs, such as tickets to shows or sport events, meals, lodging, rentals, transportation, and gratuities, shall not be allowable.

3353.2 Reasonable costs incurred for meetings or conferences, including, but not limited to, the cost of food, rental of facilities, and transportation, where the primary purpose of incurring those costs is the dissemination of technical information or the stimulation of production related to the District contract may be allowed by the contracting officer.

SOURCE: Final Rulemaking published at 35 DCR 1676 (February 26, 1988).

3354 FINES AND PENALTIES

3354.1 Fines and penalties resulting from violations of, or failure of the contractor to comply with District, federal, state, or local laws, or regulations shall not be allowable costs,

except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer.

SOURCE: Final Rulemaking published at 35 DCR 1676 (February 26, 1988).

3355 LOBBYING COSTS

- 3355.1 Costs associated with activities that involve attempts to influence the outcome of any District, federal, state, or local election, referendum, initiative, or similar procedure, including in-kind or cash contributions, endorsements, publicity, or similar activities, shall not be allowable.
- 3355.2 Costs associated with establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections shall not be allowable.
- 3355.3 Costs associated with any attempt to influence the introduction of District, federal, state, or local legislation, or the enactment or modification of any pending District, federal, state, or local legislation through communication with any member or employee of the Council, the Congress, or any state or local legislature, or any government official or employee in connection with a decision to sign or veto enrolled legislation shall not allowable.
- 3355.4 Costs associated with any attempt to influence the introduction of District, federal, state or local legislation, or the enactment or modification of any pending District, federal, state, or local legislation by preparing, distributing, or using publicity or propaganda, or by urging any member of the public to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign, or letter writing or telephone campaign shall not be allowable.
- 3355.5 Costs associated with legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when those activities are carried on in support of or in preparation for an effort to engage in other activities for which costs are not allowed under this section, shall not be allowable.
- 3355.6 The costs of providing a technical and factual presentation of information on a topic directly related to the performance of a contract through hearing testimony, statements or letters to the Council or the Congress, including any committee, subdivision, member, or staff member, in response to a documented request made by or on behalf of the recipient member or legislative body shall be allowable if the information is readily obtainable and can be readily put in deliverable form.
- 3355.7 Costs for transportation, lodging, or meals in connection with the activities authorized under §3355.6 shall not be allowable unless incurred for the purpose of offering testimony at a regularly scheduled Council or congressional hearing pursuant to a written request for the presentation from the committee or subcommittee conducting the hearing.
- 3355.8 The costs of an activity specifically authorized by statute to be undertaken with funds from the contract shall be allowable.

- 3355.9 When a contractor seeks reimbursement for indirect costs, total costs for the activities set forth in this section shall be separately identified in the indirect cost rate proposal, and shall be treated as unallowable activity costs.

SOURCE: Final Rulemaking published at 35 DCR 1676 (February 26, 1988).

3356 PLANT PROTECTION COSTS

- 3356.1 The cost of items such as wages, uniforms, and equipment of personnel engaged in plant protection and the cost of depreciation on plant protection capital assets shall be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1678 (February 26, 1988).

3357 TRANSPORTATION COSTS

- 3357.1 Transportation costs, such as freight, express, cartage, and postage charges relating to goods purchased, in process, or delivered, shall be allowable.

- 3357.2 When identification with the materials received cannot be made, inbound transportation costs may be charged to the appropriate indirect cost accounts if the contractor follows a consistent and equitable procedure. Outbound freight, if reimbursable under the terms of the contract, shall be treated as a direct cost.

SOURCE: Final Rulemaking published at 35 DCR 1678 (February 26, 1988).

3358 TRAVEL COSTS

- 3358.1 Costs for transportation, lodging, meals, and incidental expenses incurred by contractor personnel in official company business related to the District contract shall be allowable. Allowable costs may be based on actual cost incurred, *per diem* or mileage, or a combination if the method used does not result in an unreasonable charge.

- 3358.2 Travel costs directly attributable to specific contract performance shall be allowable and may be charged to the contract as a direct cost.

- 3358.3 Travel costs incurred in the normal course of overall administration of the business shall be allowable and shall be treated as an indirect cost.

- 3358.4 The difference in cost between first-class air accommodations and less than first-class accommodations shall not be allowable.

SOURCE: Final Rulemaking published at 35 DCR 1678 (February 26, 1988).

3399 DEFINITIONS

- 3399.1 When used in this chapter, the following terms and phrases shall have the meanings ascribed:

Actual costs - amounts determined on the basis of costs incurred, as distinguished from forecasted costs. Actual costs include standard costs properly adjusted for applicable variances.

Advance cost agreement - an agreement between the District and a contractor concerning the treatment of special or unusual costs which are expected to be incurred.

Advertising costs - costs of advertising and directly associated costs regardless of the medium employed, when the advertiser has control over the form and content of what will appear, the media in which it will appear, and when it will appear. Advertising media includes conventions, exhibits, free goods, samples, magazines, newspapers, trade papers, direct mail, dealer cards, window displays, outdoor advertising, and radio and television programs.

Allocate - to assign an item of cost, or a group of items of cost, to one (1) or more cost objectives.

Allowable costs - costs determined to be permissible based on reasonableness, allocability, and generally accepted accounting principles and practices appropriate to the particular circumstances.

Bona fide employee - an employee who is employed in a specific position for a specific purpose relating to promoting or securing business for the contractor.

Business unit - any segment of an organization, or an entire business organization, which is not divided into segments.

Consultant - a firm or individual with knowledge and special abilities not generally available to an agency who renders services of a purely advisory nature relating to governmental functions or agency administration and management.

Contingency costs - costs based on a possible future event or condition arising from presently known or unknown causes, the outcome of which is not determinable at the present time.

Cost objective - a function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, and capitalized projects.

Council - the Council of the District of Columbia.

Deferred compensation - an award made by an employer to compensate an employee in a future cost accounting period or periods for services rendered in one (1) or more cost accounting periods before the date of the receipt of compensation by the employee. This term does not include the amount of year end accruals for salaries, wages, or bonuses that are to be paid within a reasonable period of time after the end of a cost accounting period.

Depreciation - a charge to current operations which distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner. Useful life refers to the prospective period of economic usefulness in a particular contractor's operations as distinguished from physical life, as evidenced by the actual or estimated retirement and replacement practice of the contractor.

Direct cost - any cost that can be identified specifically with a particular final cost objective or is incurred directly for a particular contract.

Directly associated cost - any cost which is generated solely as a result of the incurrence of another cost, and which would not have been incurred had the cost not been incurred.

Director - the Director of the Department of Administrative Services.

Established commercial or selling agency - a firm whose primary products are activities designed to secure business for the contractor such as technical, consulting, or demonstration services.

Estimating costs - the process of forecasting a future result in terms of cost, based upon information available at the time.

Expert - a person with excellent qualifications and a high degree of attainment in a professional, scientific, technical, or other field, whose knowledge and mastery of the principles, practices, problems, methods, and techniques of his or her field or activity, or of a specialized area in the field, are clearly superior to those usually possessed by ordinarily competent persons in that activity, and whose attainment is such that he or she usually is regarded as an authority or as a practitioner of unusual competence and skill by other persons in the profession, occupation, or activity.

Expressly unallowable cost - a particular item or type of cost which, under the express provisions of an applicable law, regulation, or contract, is specifically named and stated to be unallowable.

Final cost objective - a cost objective that has allocated to it both direct and indirect costs and, in the contractor's accumulation system, is one of the final accumulation points.

Fiscal year - the accounting period for which annual financial statements are regularly prepared.

Fringe benefits - allowances and services provided by the contractor to its employees as compensation in addition to regular wages and salaries.

Indirect costs - any cost not directly identified with a single contract, but identified with two (2) or more final cost objectives or an intermediate cost objective.

Indirect cost pools - groupings of incurred costs identified with two (2) or more cost objectives but not identified specifically with any final cost objective.

Insurance administration expenses - the contractor's costs of administering an insurance program, which may include the cost of operating an insurance or risk management department, processing claims, actuarial fees, and service fees paid to insurance companies, trustees, or technical consultants.

Material costs - costs of items such as raw materials, parts, sub-assemblies, components, and manufacturing supplies, whether purchased or manufactured by the contractor, which may include such collateral items as inbound transportation and intransit insurance.

Normal cost - the annual cost attributable, under the actuarial cost method in use, to years subsequent to a particular valuation date.

Operating lease - the acquisition of real or personal property which is considered normal property to the operations of the contractor by lease or rental.

Organization costs - costs such as incorporation fees and costs of attorneys, accountants, brokers, promoters, organizers, management consultants, and investment counselors, including employees of the contractor.

Pension plan - a deferred compensation plan established and maintained by one (1) or more employers to provide systematically for the payment of benefits to plan participants after their retirements. The benefits are paid for life or are payable for life at the option of the employees. Additional benefits such as permanent and total disability, death payments, and survivorship payments to beneficiaries of deceased employees may be an integral part of a pension plan.

Pension plan participant - any employee or former employee of an employer, or any member or former member of an employee organization, who is or may become eligible to receive a benefit from a pension plan which covers employees of such employer or members of such organization and who have satisfied the plan's participation requirements. Beneficiaries receiving benefits or who may be eligible to receive benefits are included in this term.

Pre-contract costs - costs incurred before the effective date of the contract directly pursuant to the negotiation and in anticipation of the contract award when those costs are necessary to comply with the proposed contract delivery schedule.

Preparatory costs - an initial cost, such as those costs incurred for initial plant rearrangement and alterations, management and personnel organization, and production planning.

Pricing - the process of establishing a reasonable amount or amounts to be paid for supplies or services.

Profit center - the smallest organizationally independent segment of a company charged by management with profit and loss responsibilities.

Proposal - any offer or other submission used as a basis for pricing a contract, contract modification, or termination settlement or for securing payments thereunder.

Rental costs - costs of renting or leasing real or personal property, except automatic data processing equipment.

Residual value - the proceeds, less removal and disposal costs, if any, realized upon disposition of a tangible capital asset. It usually is measured by the net proceeds from the sale or other disposition of the asset, or its fair market value if the asset is traded in on another asset. The estimated residual value is a current forecast of the residual value.

Selling costs - costs that arise in the marketing of the contractor's products and includes costs of sales promotions, negotiation, liaison between District representatives and the contractor's personnel, and related activities.

Service life - the period of usefulness of a tangible capital asset, or group of assets, to its current owner. The period may be expressed in units of time or output. The estimated service life of a tangible capital asset, or group of assets, is a current forecast of its service life and is the period over which depreciation cost is to be assigned.

Special test equipment - single or multi-purpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in performing a contract. It consists of items or assemblies of equipment that are interconnected and interdependent so as to become a new functional entity for special testing purposes. It does not include material, special tooling, facilities, and plant equipment items used for general plant testing purposes.

Special tooling - jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, all components of these items, and replacement of these items, which are of such a

specialized nature that without substantial modification or alteration their use is limited to the development or production of particular supplies or parts thereof or to the performance of particular services. It does not include material, special test equipment, facilities, general or special machine tools, or similar capital items.

Standard cost - any cost computed with the use of pre-established measures.

Tangible capital asset - an asset that has physical substance, more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the services it yields.

Unallowable cost - any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a District contract to which it is allocable.

Variance - the difference between a pre-established measure and an actual measure.

SOURCE: Final Rulemaking published at 35 DCR 1679 (February 26, 1988).